MULTIMEDIA UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 1, 2018/2019**

## PEM0024 – ESSENTIAL OF MICROECONOMICS

(All sections / Groups)

13 OCTOBER 2018
9.00 a.m. – 11.00 a.m.
(2 Hours)

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**INSTRUCTIONS TO STUDENTS**

1. This question paper consists of **FOURTEEN (14)** printed pages with:
   **Section A:** Forty (40) multiple choice questions (40%)
   **Section B:** Three (3) structured questions (60%)

2. Answer **ALL** questions.

3. Answer **Section A** in the multiple-choice answer sheet provided and **Section B** in the answer booklet provided.

4. Marks are shown at the end of each question.

## SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. A similarity between monopoly and monopolistic competition is that, in both market structures,
   A. strategic interactions among sellers are important.
   B. there are a small number of sellers.
   C. sellers are price makers rather than price takers.
   D. product differentiation is important.

2. Which of the following goods are not likely to be sold in monopolistically competitive markets?
   A. Compact discs
   B. Books
   C. Cookies
   D. Wheat

3. Entry by new firms into a monopolistically competitive market
   A. creates additional consumer surplus.
   B. imposes a positive externality on existing firms.
   C. leads to the same externalities that are observed when new firms enter a perfectly competitive market.
   D. increases the demand for existing firms' products.

4. For a monopolistically competitive firm, at the profit-maximizing quantity of output,
   A. price exceeds marginal cost.
   B. marginal revenue exceeds marginal cost.
   C. marginal cost exceeds average revenue.
   D. price equals marginal revenue.

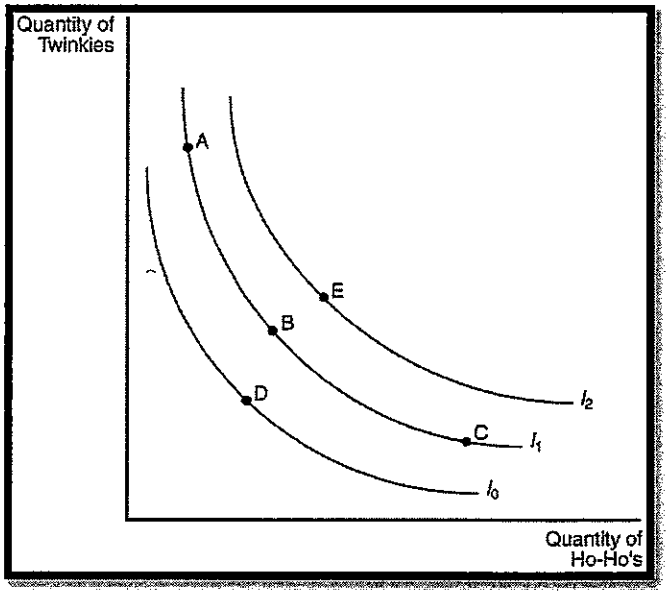
5. Suppose a consumer spends her income on two goods: music CDs and DVDs. If the consumer has RM200 to allocate to these two goods, the price of a CD is RM10, and the price of a DVD is RM20, what is the maximum number of CDs the consumer can purchase?
   A. 10
   B. 20
   C. 40
   D. 50

**Continued...**

6. A family on a trip budgets RM800 for meals and petrol. If the price of a meal for the family is RM50, how many meals can the family buy if they do not buy any petrol?
   A. 8
   B. 16
   C. 24
   D. 32

Refer to the information provided in **Figure 1** below to answer the question(s) that follow.

**Figure 1**




7. Refer to **Figure 1**. Which of the following statements is correct?
   A. Point A is preferred equally to point E.
   B. Point A is preferred equally to point C.
   C. The bundle associated with point B contains more Ho-Ho's than that associated with point C.
   D. The bundles along indifference curve $I_1$ are preferred to those along indifference curve $I_2$.

8. Refer to **Figure 1**. Which of the following statements is true?
   A. If a consumer moves from point C to point A, her loss of Ho-Ho's cannot be compensated for by an increase in Twinkies.
   B. Point E is preferred to all other points identified in the figure.
   C. Since more is preferred to less, point C may be preferred to point E in some circumstances for this consumer.
   D. Even though point E has more of both goods than point B, we could draw a different set of indifference curves in which point B is preferred to point E.

**Continued...**

9. Refer to **Figure 1**. Which of the following statements is true for a consumer who moves from point A to point D?
   A. It is difficult to compare the level of consumer satisfaction between points D and A.
   B. The consumer is indifferent between point A and point D.
   C. The consumer is definitely worse off.
   D. The consumer is likely to place a higher relative value on Twinkies at point A than at point D.

10. Indifference curves graphically represent
   A. an income level sufficient to allow an individual to achieve a given level of satisfaction.
   B. the constraints faced by individuals.
   C. an individual's preferences.
   D. the relative price of commodities.

11. The rate at which a consumer is willing to exchange one good for another, and maintain a constant level of satisfaction, is called the
   A. relative expenditure ratio.
   B. value of marginal product.
   C. marginal rate of substitution.
   D. relative price ratio.

12. As long as a consumer remains on the same indifference curve
   A. she is indifferent to all points which lie on any other indifference curve.
   B. her preferences will not affect the marginal rate of substitution.
   C. she is unable to decide which bundle of goods to choose.
   D. she is indifferent among the points on that curve.

13. Indifference curves that cross would suggest that
   A. the consumer does not prefer more to less.
   B. the consumer is likely to prefer a redistribution of income from rich to poor.
   C. different individuals have different preferences for the same goods.
   D. the marginal rate of substitution is the same for both indifference curves.

14. In oligopoly,
   A. the largest four firms are likely to have a small market share.
   B. the price is likely to equal marginal revenue.
   C. firms will continue to produce in the long run if price is less than average cost.
   D. firms may collude or compete depending on their assumptions about their competitors.

**Continued...**

15. The term *market* always refers to
    A. an arrangement in which buyers and sellers meet at a specific time and place.
    B. an arrangement in which an auctioneer plays at least a limited role in setting prices.
    C. a group of buyers and sellers of a particular good or service.
    D. All of the above are correct.

16. A monopolistically competitive firm is producing at an output level in the short run where average total cost is RM4.50, price is RM4.00, marginal revenue is RM2.50, and marginal cost is RM2.50. This firm is operating
    A. with a profit in the short run.
    B. with a loss in the short run.
    C. at the break-even level of output in the short run.
    D. at an efficient level of output in the short run.

17. In the short run, the monopolistically competitive firm will experience
    A. an economic profit, and also one in the long run.
    B. a normal profit, but in the long run only an economic profit.
    C. economic profits or losses, but in the long run only a normal profit.
    D. economic profits or losses, but in the long run only an economic profit.

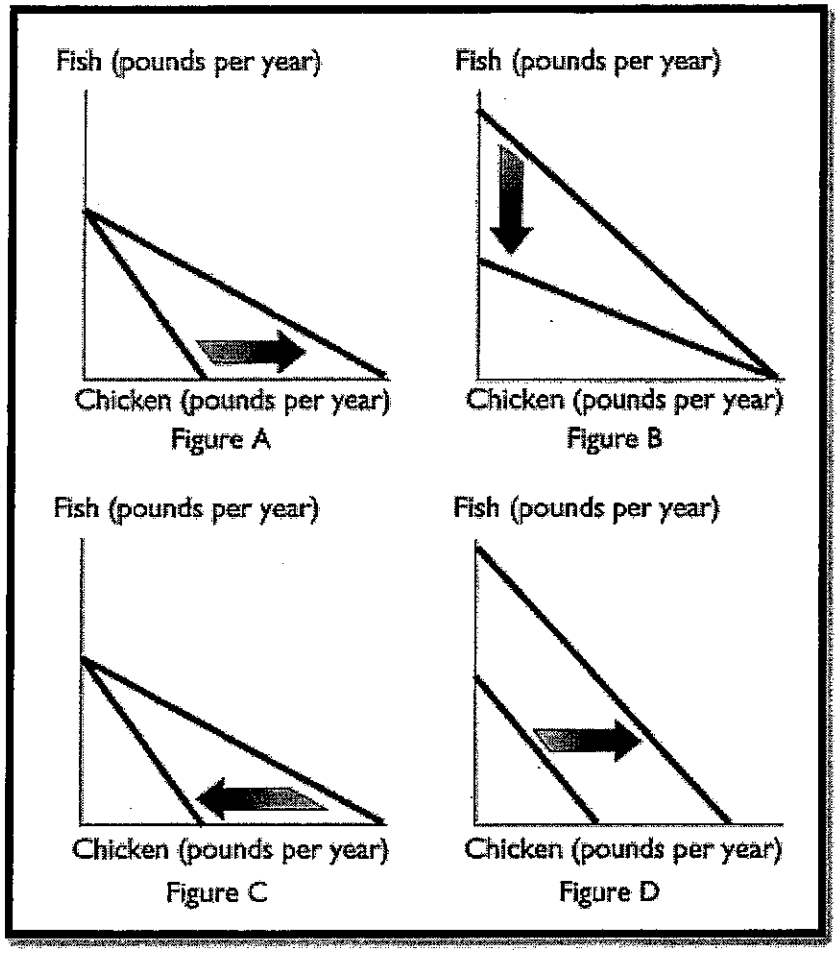
18. Price decreases will _____ a household's choice set.
    A. increase
    B. decrease
    C. not change
    D. sometimes increase and other times decrease

19. Which of the following statements is not true of indifference curves?
    A. They are convex to the origin.
    B. They are downward sloping.
    C. They are concave to the origin.
    D. They exhibit higher levels of utility as you move further from the origin.

20. Most economists argue that a monopoly is inefficient because it
    A. produces too little output and sets a price above marginal cost.
    B. earn too much profit by charging consumers any price it wants.
    C. produces too much output and thus wastes scarce resources.
    D. usually produces unsafe products if not regulated by government.

**Continued...**

21. **Figure 2**




Referring to **Figure 2** above, which one reflects an increase in the price of chicken?

A. Figure A
B. Figure B
C. Figure C
D. Figure D

22. Which of the following is a variable cost?

A. Interest payments.
B. Raw materials costs.
C. Property taxes.
D. All of the above are variable costs.

23. Implicit costs are

A. equal to total fixed costs.
B. comprised entirely of variable costs.
C. "payments" for self-employed resources.
D. always greater in the short run than in the long run.

**Continued...**

24. Suppose that a firm produces 150,000 units of a product a year and sells them all for RM10 each. The explicit costs of production are RM1,000,000 and the implicit costs of production are RM250,000. The firm has an accounting profit of ..... and an economic profit of ..... .
    A. RM500,000; RM250,000
    B. RM500,000; RM750,000
    C. RM1,250,000; RM500,000
    D. RM1,250,000; RM750,000

25. The long run is a period of time in which
    A. economic efficiency is achieved.
    B. the quantities of all inputs can be varied.
    C. he firm may want to build a bigger plant, but cannot do so.
    D. the firm is able to maximize total profit.

26. **Table 1**

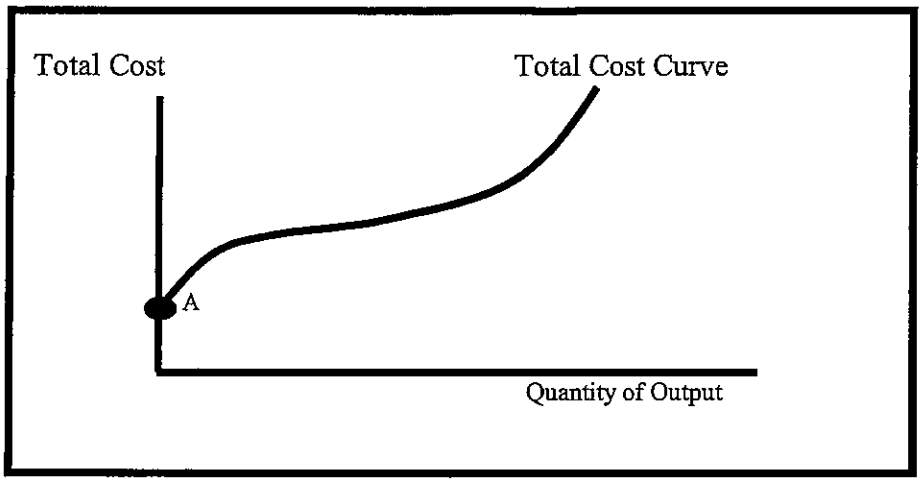
| Quantity of Output (units) | Total Cost (RM) |
|---|---|
| 3 | 25 |
| 4 | 55 |
| 5 | 75 |
| 6 | 79 |

**Table 1** represents a firm's short-run total cost schedule. When output increases from four to five units, the marginal cost is
    A. RM4
    B. RM20
    C. RM30
    D. RM50

27. If all resources used in the production of a product are increased by 25 percent and output increases by 25%, then there must be
    A. economies of scale.
    B. diseconomies of scale.
    C. constant returns to scale.
    D. increasing average total costs.

**Continued...**

28. **Figure 3**




Based on the total cost curve in **Figure 3**, the reason point A is not through the origin but starts up on the vertical axis is that

A. there are fixed outputs.
B. there are fixed costs.
C. there is no cost associated with producing no output.
D. there is waste.

29. A profit maximizing firm in perfect competition produces where

A. total revenue is maximized.
B. marginal revenue is equals zero.
C. marginal revenue equals marginal cost.
D. marginal revenue equals average cost.

30. In perfect competition,

A. the products firms offer are very similar.
B. products are heavily differentiated.
C. a few firms dominate the market.
D. consumers have limited information.

31. In perfect competition, restrictions on entry into an industry

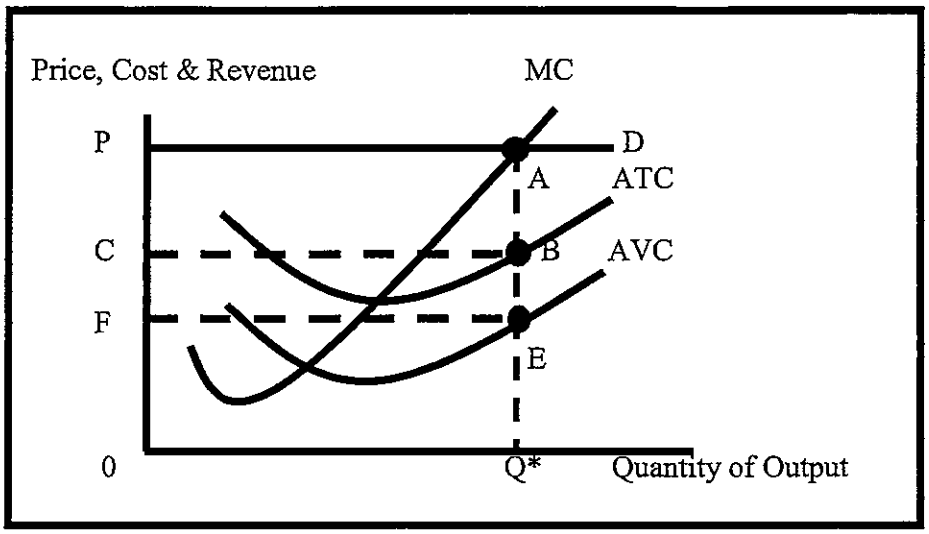
A. do not exist.
B. apply to labor but not to capital.
C. apply to both capital and labor.
D. apply to capital but not labor.

32. Which of the following is a condition of perfect competition?

a. Products produced by rival firms are perfect substitutes.
b. Individual firms can affect market supply.
c. Industry sales are small.
d. Restricted entry and exit.

**Continued...**

33. **Figure 4**




If the firm shown in **Figure 4** is producing Q* units of output, its total costs are represented by the area equal to

A. 0CBQ*.
B. 0DEQ*.
C. CPAB.
D. DCBE.

34. Which real-world market closely approximates perfect competition?

A. Most agricultural markets.
B. Automobile manufacturers.
C. Private colleges and universities.
D. Cable television services.

35. Which of the following demonstrate break-even output?

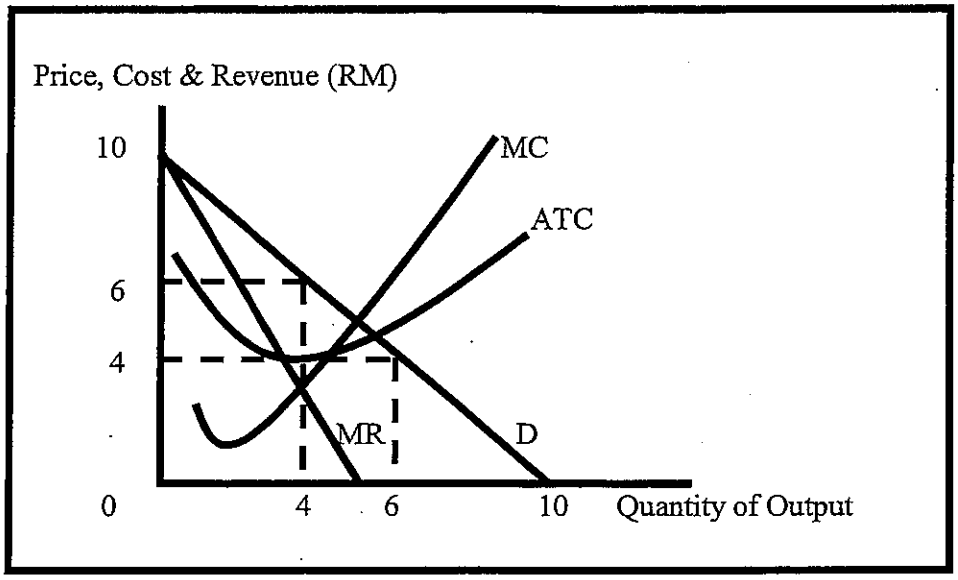
A. The output at which the total revenue covers a firm's total fixed cost.
B. The output at which the total revenue covers a firm's total variable cost.
C. The output at which the total revenue covers a firm's fixed and variable costs, including supernormal profits.
D. The output at which the firm is making zero normal profits.

36. A patent grants

A. a guarantee of quality to consumers.
B. an exclusive right to an inventor of a product.
C. the right to practice a profession.
D. control over a unique source or supply of raw materials.

**Continued...**

37. **Figure 5**




For the unregulated, single-price monopoly shown in **Figure 5**, when its profit is maximized, output will be

A. 4 units per year and the price will be RM6.
B. 4 units per year and the price will be RM4.
C. 6 units per year and the price will be RM4.
D. 6 units per year and the price will be RM10.

38. Products sold in a monopoly market are

A. all consumer goods.
B. reasonably priced.
C. homogeneous.
D. unique.

39. All of the following are characteristics of the pure monopolist except

A. there are no close substitutes for its product.
B. monopoly price is greater than its marginal cost of production.
C. there is relatively easy entry into the market.
D. there is only one seller in the market.

40. Comparing a monopoly and a competitive firm, the monopolist will produce

A. less at a lower price.
B. more at a lower price.
C. less at a higher price.
D. less at a lower price.

**Continued...**

## SECTION B: STRUCTURED QUESTIONS (60 Marks)

### Question 1 (20 marks)

In a small college town, Nana's Bookstore is categorized as a monopoly in selling textbooks. Nana's fixed costs are RM100, and her total costs are shown in **Table 2.**

**Table 2**

| Quantity (books per hour) | Total Cost (RM) | Marginal Cost (RM) | Total Revenue (RM) | Marginal Revenue (RM) |
|---|---|---|---|---|
| 9 | 247 | - | 513 | - |
| 10 | 256 | | 560 | |
| 11 | 267 | | 605 | |
| 12 | 280 | | 648 | |
| 13 | 295 | | 689 | |
| 14 | 312 | | 728 | |
| 15 | 331 | | 765 | |
| 16 | 352 | | 800 | |
| 17 | 375 | | 833 | |
| 18 | 400 | | 864 | |
| 19 | 427 | | 893 | |
| 20 | 456 | | 920 | |

**Continued...**

(a) Complete **Table 2** by computing marginal cost and marginal revenue columns.
(10 marks)

(b) What is Nana's profit-maximizing quantity of output? Explain your answer.
(2 marks)

(c) Without price discrimination, at what price will she sell her books? Explain your answer.
(2 marks)

(d) Calculate her total economic profit.
(2 marks)

(e) List down and elaborate on **TWO (2)** characteristics of a monopoly firm.
(4 marks)

**Continued...**

## Question 2 (20 marks)

**Table 3** below shows information for a perfectly competitive firm.

**Table 3**

| Quantity (units) | Price (RM) | Total Fixed Cost (RM) | Total Variable Cost (RM) | Total Cost (RM) | Marginal Cost (RM) | Total Revenue (RM) | Profit/ Loss (RM) |
|---|---|---|---|---|---|---|---|
| 0 | 150 | 200 | - | | | | |
| 1 | 150 | 200 | 140 | | | | |
| 2 | 150 | 200 | 240 | | | | |
| 3 | 150 | 200 | 320 | | | | |
| 4 | 150 | 200 | 410 | | | | |
| 5 | 150 | 200 | 520 | | | | |
| 6 | 150 | 200 | 650 | | | | |
| 7 | 150 | 200 | 810 | | | | |
| 8 | 150 | 200 | 1010 | | | | |
| 9 | 150 | 200 | 1310 | | | | |
| 10 | 150 | 200 | 1710 | | | | |

(a) Complete **Table 3** by computing total cost, marginal cost, total revenue and profit/loss columns.

(11 marks)

(b) What is the price and quantity sold at the profit maximizing point? Explain your answer.

(4 marks)

(c) Identify and elaborate on **TWO (2)** disadvantages of being in the perfect competitive market.

(5 marks)

**Continued...**

**Question 3 (20 marks)**

Use the figures in the **Table 4** below to answer the following questions.

**Table 4**

| Units of product A | Total utility | Marginal utility |
|---|---|---|
| 0 | 0 | |
| 1 | 20 | |
| 2 | 35 | |
| 3 | | 10 |
| 4 | | 5 |
| 5 | | 0 |
| 6 | 45 | |
| 7 | 35 | |
| 8 | | -15 |

(a) Fill in the values for total and marginal utilities of product A.

(4 marks)

(b) Based on the information in **Table 4**, draw the total utility and marginal utility curves together in the same graph.

(4 marks)

(c) Identify the point where utility is maximized on **BOTH** curves.

(2 marks)

**Continued...**

(d) Suppose a consumer has a daily income of RM100 and purchases just two goods A and B. The price of good A is RM5 and the price of good B is RM4. Assume good A is on the x-axis and good B is on the y-axis of the budget line.

(i) What is the slope of the budget line?

(2 marks)

(ii) Suppose the consumer's income decreases to RM80.What is the new slope of the budget line?

(2 marks)

(iii) Suppose the price of product B decreases to RM2. If the income remains at RM100, what is the new slope of the budget line?

(2 marks)

(e) Explain the difference between cardinal and ordinal utility.

(4 marks)

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